

VZCZCXRO9489  
RR RUEHCN RUEHGH RUEHVC  
DE RUEHGZ #0526/01 2400855  
ZNR UUUUU ZZH  
R 270855Z AUG 08  
FM AMCONSUL GUANGZHOU  
TO RUEHC/SECSTATE WASHDC 7544  
INFO RUEHOO/CHINA POSTS COLLECTIVE  
RUEATRS/DEPT OF TREASURY WASH DC  
RUCPDOG/DEPT OF COMMERCE WASHDC  
RUEAIIA/CIA WASHDC  
RUEKJCS/DIA WASHDC

UNCLAS SECTION 01 OF 02 GUANGZHOU 000526

SENSITIVE  
SIPDIS

STATE PASS USTR FOR STRATFORD/WINTER/MCCARTIN/LEE  
STATE PASS FEDERAL RESERVE BOARD FOR JOHNSON/SCHINDLER  
STATE PASS SAN FRANCISCO FRB FOR CURRAN  
TREASURY FOR MOGHTADER

E.O. 12958: N/A

TAGS: [EFIN](#) [CH](#) [TW](#)

SUBJECT: China Merchants Bank Sees U.S. Financial Sector Recovery in  
Second Half of 2009

(U) This document is sensitive but unclassified. Please protect  
accordingly. Not for release outside U.S. government channels. Not  
for internet publication.

1. (SBU) Summary: The CEO of China Merchants Bank, the country's  
sixth largest lender, predicts the U.S. financial sector will  
recover from the sub-prime mortgage crisis by the second half of  
next year and this will be good news for China. CEO Ma Weihua's  
bank is opening a new branch in New York and looks to expand in  
Europe and eventually Taiwan. He has discussed expansion in Taiwan  
with politicians from both the Pan-Blue and Pan-Green camps and a  
senior official from Taiwan's Financial Supervisory Commission  
expressed support, but concluded that as yet it would be easier for  
a Taiwan Bank to open on the mainland than the other way around.  
China Merchants relies heavily on staff from Taiwan in its credit  
card business and Ma sees expansion of consumer credit as key to  
China's economic goal of expanding domestic consumption. End  
summary.

#### Sub-Prime Crisis - Recovery and Blame

-----

2. (SBU) The U.S. financial sector will see recovery from the  
sub-prime mortgage crisis in the second half of 2009 -- according to  
the politically well-connected and economically savvy China  
Merchants Bank CEO and President Ma Weihua -- and this would be good  
news for China. Ma told the Consul General that financial  
institutions will continue to feel the effects of crisis in the  
first half as firms report their results from 2008. He blamed the  
crisis on three categories of institutions -- investment banks,  
credit rating companies and regulators, singling out the Federal  
Reserve for special criticism. He said the investment banks should  
have limited their exposure to mortgage-backed assets. He faulted  
credit rating agencies for lacking objectivity ahead of the crisis.  
As for the Fed, he said that had it acted more quickly, as it had in  
the Bear Stearns situation, the downturn would not have been as  
bad.

#### Expanding Internationally and Across the Strait

-----

3. (SBU) Ma is traveling to the New York soon to celebrate the  
opening of a new China Merchants branch there. He expressed  
particular pride in Treasury's approval of the branch, noting that  
the U.S. had the most stringent laws and regulations in place for  
banks of any sort, domestic or international. The bank is also  
working on setting up a branch in London; he had spoken with Gordon  
Brown in Beijing the week before and found the British far too  
conservative in their approach to banking, one of the reasons why  
London had lost a position of preeminence in financial circles. Ma

confirmed reports that the bank is eager to establish a presence in Taiwan as well. He told us that he had been to Taiwan several times and discussed his interest in opening an office there with politicians from both the Pan-Blue and Pan-Green camps. Ma said that one Democratic Progressive Party (DPP) legislator had acknowledged the economic benefits Taiwan could enjoy from expanded cross-Strait financial exchanges but had explained that the DPP could not support them for political reasons. Ma noted that he had met with Taiwan Financial Supervisory Commission Vice Chair Li Jih-chu several times and that she had expressed her support for China Merchants expanding its presence in Taiwan.

#### Following the Path of Taiwan

-----

14. (SBU) Commenting that Taiwan was about 20 years ahead of China in the development of its financial sector, Ma explained that the experience of Taiwan banks had informed China Merchants' growth strategy. He noted in particular that he relied heavily on staff hired from Taiwan banks for his credit card business. They have experience growing the credit card market, he explained. He commented that with so many banks competing for Taiwan's small market, there is an abundance of expertise on the island. In addition, he noted that Taiwan bankers were not only familiar with the West and international banking practices but were also culturally at home in China.

#### Raising Consumption and Competitiveness

-----

15. (SBU) Ma pointed out that expanding the credit card market in China would be important to achieving the government's goal of

GUANGZHOU 00000526 002 OF 002

increasing domestic consumption -- noting in response to a question from the Consul General that assisting in growing the domestic market would be a key part of China Merchants operations. He said that the Chinese economy needs to move past its reliance on exports; future growth will come from investment and domestic consumption. Ma commented that the Chinese government wanted to make local manufacturing industries more competitive. Measures like the Labor Contract Law, appreciation of the renminbi and allowing input costs to rise would help raise local firms to international standards, he said.

GOLDBERG